

**REPORT OF
FINANCIAL EXAMINATION**

**POLK COUNTY MUTUAL INSURANCE
COMPANY**

**AS OF
DECEMBER 31, 2004**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SALUTATION	1
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	3
Management	3
Conflict of Interest	4
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	5
EMPLOYEE BENEFITS	5
INSURANCE PRODUCTS AND RELATED PRACTICES:	
Territory and Plan of Operation	5
Policy Forms & Underwriting	6
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	6
REINSURANCE:	
General	6
Assumed	7
Ceded	7
ACCOUNTS AND RECORDS	8
FINANCIAL STATEMENTS:	
Analysis of Assets	9
Liabilities, Surplus and Other Funds	9
Statement of Income	10
Capital and Surplus Account	10
NOTES TO THE FINANCIAL STATEMENTS	11
EXAMINATION CHANGES	11
GENERAL COMMENTS AND/OR RECOMMENDATIONS	11
SUBSEQUENT EVENTS	11
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	12

November 17, 2005
Bolivar, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

POLK COUNTY MUTUAL INSURANCE COMPANY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 705 West Fair Play Street, Bolivar, Missouri, telephone number (417) 326-4914. This examination began on November 16, 2005, and was concluded on November 17, 2005, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri

prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Conflict of Interest

Comment: It was recommended the Company revise its conflict of interest statements to require full disclosure of the nature of possible conflicts of interest noted by its directors and officers.

Company Response: The Company will revise the conflict of interest statements in accordance with the recommendations. On the revised statements, each director will be required to sign and state any possible conflicts.

Current Findings: The Company has complied with the recommendation. The directors and officers of the Company currently complete conflict of interest statements on an annual basis.

Corporate Records

Comment: It was recommended the Board of Directors put more Company policies in writing, which should be maintained in an up-to-date manual and made available to Company management and personnel.

Company Response: The Company will review and update the current corporate records of the Company, where needed. In addition, management and legal counsel will work on the development of additional corporate policies, which will be incorporated into a manual and provided to Company management and personnel.

Current Findings: The Company currently has a procedure manual in place which adequately addresses the operations of the Company.

HISTORY

General

The Company was originally established and incorporated on December 14, 1897, as Farmers Mutual Fire & Lightning Insurance Company of Polk County. On February 27, 1985, the Company amended its Articles of Incorporation, changing its name to Polk County Mutual Insurance Company.

The Company has a Certificate of Authority dated March 23, 1990, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third Monday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and each member receives compensation of \$540 per month.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Arlene Lear P.O. Box 167 Humansville, Missouri	Insurance Agency Owner	2002-2005

Justin Lear 380 Highway V Humansville, Missouri	Insurance Company Manager	2003-2006
Shawn Tarwater P.O. Box 51 Humansville, Missouri	Pawnbroker	2004-2007
Larry Crocker HC 79 Box 3189 Pittsburg, Missouri	Business Owner	2004-2007
Lionel Lear P.O. Box 167 Humansville, Missouri	Business Owner/Farmer	2002-2005

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2004, were as follows:

Arlene Lear	President
Justin Lear	Vice-President
Shawn Tarwater	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments have been made to the Articles of Incorporation or Bylaws since the last examination.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$75,000 and \$100,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$2,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company's agents are responsible for obtaining their own errors and omissions insurance coverage.

The Company carries insurance coverage on its home office building, contents and Company automobiles, as well as business liability and workers compensation insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has six full-time employees and one part-time employee. Full time employees receive two weeks of paid vacation per year and are eligible to participate in group health, life and dental plans sponsored by the Company. The Company also matches up to 2% of each full-time employee's contributions to a 401(k) plan. The Company appears to have made adequate provisions for the benefits in the financial statements.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual

Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire and wind insurance in all counties in the State of Missouri. The Company writes fire and wind coverages and markets liability coverages through an organizational agreement with its reinsurer. The Company's policies are sold by twenty-one licensed producers, who receive a 15% commission.

Policy Forms and Underwriting Practices

The Company uses Grinnell policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by two Company employees. The claims and adjusting function is outsourced to a third party, Gibson & Associates Professional Claims Management of Springfield, Missouri.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2004	\$1,543,796	\$359,062	\$2,638,351	\$1,078,329	\$37,439	\$32,239	\$134,530
2003	1,174,306	91,975	2,067,770	2,265,032	24,155	75,685	158,756
2002	997,246	72,849	1,622,891	1,468,836	37,713	(88,321)	603
2001	1,090,918	150,551	1,343,868	632,433	52,416	(75,608)	21,348
2000	1,176,334	250,521	1,173,374	654,351	49,001	(199,257)	(110,581)

At year-end 2004, 5,298 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for

the period under examination is shown below:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct	\$1,173,374	\$1,343,868	\$1,622,891	\$2,067,770	\$2,638,351
Assumed	0	0	0	0	0
Ceded	<u>(219,406)</u>	<u>(254,052)</u>	<u>(267,333)</u>	<u>(354,097)</u>	<u>(463,226)</u>
Net	<u>\$953,968</u>	<u>\$1,089,816</u>	<u>\$1,355,558</u>	<u>\$1,713,673</u>	<u>\$2,175,125</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss with aggregate excess plan reinsurance agreement for property risks. Under the individual occurrence of loss excess portion of the agreement, the Company retains \$100,000 for each loss occurrence and the reinsurer's limits are \$500,000 for dwellings, commercial and public property and livestock, poultry and horse operations and \$750,000 for farm outbuildings. Annual premium paid to the reinsurer for 2004 was \$.2855 for fire and \$.0309 for wind per \$1,000 of adjusted gross fire risks in force.

Under the aggregate excess portion of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2004 was \$1,291,073 and the annual premium paid was \$.6720 per \$1,000 of adjusted gross fire risks in force.

Under the facultative reinsurance portion of the agreement the Company may cede risks to the reinsurer that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

The Company has an organizational agreement with the reinsurer, under which the Company markets homeowner and farmowner liability products written by the reinsurer. The Company receives a 20% commission on these policies.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The compilation of the Company's annual statement is performed by the certified public accounting firm of Van de Ven, LLC.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2004

Bonds	\$ 837,484
Real Estate	49,127
Cash on Deposit	635,736
Computer Equipment	6,521
Federal Income Tax Recoverable	4,400
Interest Due and Accrued	6,908
Asset Write-Ins	3,620

Total Assets	\$ 1,543,796
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2004

Losses Unpaid	\$ 246,080
Ceded Reinsurance Payable	57,822
Liability Write-Ins	55,160

Total Liabilities	\$ 359,062

Guaranty Fund	\$ 100,000
Other Surplus	1,084,734

Total Surplus	1,184,734

Total Liabilities and Surplus	\$ 1,543,796
	=====

STATEMENT OF INCOME
December 31, 2004

Net Premium	\$ 2,175,125
Net Losses Incurred	(1,190,482)
Other Underwriting Expenses	(952,404)

Net Underwriting Income (Loss)	\$ 32,239

Investment Income	\$ 37,439
Other Income	64,852

Gross Income (Loss)	\$ 134,530
Federal Income Tax	0

Net Income (Loss)	\$ 134,530
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2004

Policyholders' Surplus, December 31, 2003	\$ 1,082,331
Net Income (Loss)	134,530
Non-Admitted Assets	(32,127)

Policyholders' Surplus, December 31, 2004	\$ 1,184,734
	=====

NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

None.

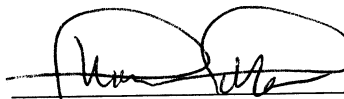
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Polk County Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 1st day of December, 2005.

My commission expires:

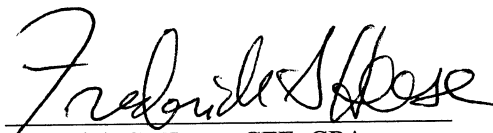
May 1, 2008


Notary Public

DEBBIE J. NOLKE
Notary Public - Notary Seal
STATE OF MISSOURI
County of Boone
My Commission Expires May 1, 2008

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read "Frederick G. Heese", written over a horizontal line.

Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri Department of Insurance